

**Report of the  
PUBLIC EMPLOYEE RETIREMENT  
ADMINISTRATION COMMISSION  
on the Examination of the  
Chelsea  
Contributory Retirement System  
For the Three Year Period  
January 1, 1999 - December 31, 2001  
PERAC 2001 09: 026-09**

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November 21, 2003

The Public Employee Retirement Administration Commission has completed an examination of the **Chelsea** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1999** to December 31, **2001**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and David Pickering who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton  
Executive Director

## **Chelsea Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

##### **1. FIDELITY BONDING**

The previous three audits covering the period from January 1, 1989 through December 31, 1998 found that the Chelsea Retirement Board did not provide fiduciary and employee bond insurance for its Board members and staff. Regulation 840 CMR 17.01 states that all persons having access to retirement Board funds shall be bonded in an amount sufficient to provide reasonable protection against losses due to fraud and dishonesty and each shall be bonded for no less than 10% of the amount of the fund or \$500,000. The previous three audits recommended that the Board must seek adequate fidelity bond insurance for the Board members and the staff of the retirement system.

The Retirement System stated that they unsuccessfully tried to secure the insurance coverage due to their low funding level, which was 44.7% as of the January 2001 actuarial valuation.

On July 26, 2001 the Chelsea Retirement System paid \$90,000.00 to Mr. William Vargus and his attorneys, Sugarman, Rogers, Barshak & Cohen, P.C. in settlement of the claim of Mr. Vargus against the City of Chelsea, the Chelsea Retirement System, their offices, employees, agents, insurers, and all those acting on the behalf of the City of Chelsea, and the Chelsea Retirement Board. Fiduciary insurance coverage could apply to a settlement of this nature. Considering that annual premiums are relatively inexpensive, it is in the best fiscal interests of the Chelsea Retirement System to maintain this type of insurance coverage.

##### **Recommendation**

The Board members as fiduciaries of the system could be held personally liable in certain situations if the system suffers a loss of the nature outlined above. Additionally, the retirement system could suffer losses resulting from fraud, dishonesty, or administrative errors and omissions. It is imperative that the Board members seek adequate fidelity bond insurance for its members and retirement System staff.

##### **2. MEMBERSHIP CONTRIBUTIONS**

The following issues were observed based upon a review of current member deductions to ensure compliance with G.L. c. 32, § 22 (1) (b).

- A member who began service on 12/14/80 has been contributing 8% into the Annuity Savings fund since 1990. G.L. c. 32, § 22 (1) (b) requires a 7% contribution to be withheld from the employees' payroll.
- Firefighters with pay code 760 "Other" are having regular contributions withheld, however, the 2% additional contribution is not being withheld for individuals with earnings in excess of \$30,000.
- Firefighters with pay code 767 "Det FI", are having the 2% additional contribution withheld, however, the regular contribution is not being withheld.

## **Chelsea Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

- Firefighters with pay code 800 “Shift Differential” are not having any Annuity Savings fund contributions withheld from their pay.
- Police Officers with pay code 151 “Reg Ho” are inconsistently having contributions taken from their payroll. For example, deductions are taken for certain fulltime officers, however, they are not taken for other fulltime officers.

#### **Recommendation**

- The Chelsea Retirement Board and its administrator should consult with the City Payroll Department to analyze and adjust the inconsistencies in payroll contributions withheld from Chelsea Firefighters’ and Police Officers’ earnings.
- 840 CMR 15.03 (1)(g) includes any amounts paid as premiums for shift differentials as regular compensation. The “Shift Differential” paid to Firefighters should be analyzed and a determination made whether annuity savings contributions should be withheld.
- The employee with 8% incorrectly being withheld should be given an option to get a refund for the additional one percent of deductions being withheld from his payroll since 1990.

#### **Board Response:**

The member whose contributions were 8% instead of 7% became a member of this Board on 1/28/87, thus the 8%. It was much later that his prior deductions were transferred from the State Retirement System. A correction has been made; his deductions are now 7%. An adjustment will be calculated. It is surprising that in all the previous examinations, none noted this discrepancy.

Code 760 “Other” – This has been corrected by the Payroll Dept.; the additional 2% is being withheld.

Code 767 “Det GI” – This code is for overtime. No deductions should be withheld. Payroll Dept. has corrected this problem.

Code 800 “Shift Differential” – Payroll says this code is also for overtime, and no deductions are to be withheld.

Code 151 “Reg Ho” – The inconsistency in deductions is because this code is for under-cover Police Officers, many times from other cities. Retirement deductions are withheld from Chelsea Police Officers, but not from those from other cities or the State Police.

***PERAC auditors will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## Chelsea Retirement System

### STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Cash	\$2,557,697	\$1,655,653	\$648,722
Short Term Investments	431,605	900,436	523,790
Fixed Income Securities (at book value)	0	0	1,424,832
Equities	7,500,793	5,030,466	20,610,550
Pooled Domestic Equity Funds	10,356,248	12,082,019	0
Pooled International Equity Funds	3,406,413	4,691,152	4,398,021
Pooled Domestic Fixed Income Funds	10,462,762	12,473,073	0
Pooled Global Fixed Income Funds	0	0	10,608,211
Interest Due and Accrued	3,354	13,103	237,972
Accounts Receivable	3,040,247	2,902,451	2,758,892
Accounts Payable	(259,049)	(46)	(145)
<b>TOTAL</b>	<b><u>\$37,500,072</u></b>	<b><u>\$39,748,307</u></b>	<b><u>\$41,210,844</u></b>
<b>FUND BALANCES</b>			
Annuity Savings Fund	\$16,138,812	\$14,883,888	\$13,327,268
Annuity Reserve Fund	4,662,596	4,804,879	4,985,546
Pension Fund	6,449,576	6,021,791	5,780,979
Military Service Fund	2,254	2,212	2,166
Expense Fund	0	0	0
Pension Reserve Fund	<u>10,246,835</u>	<u>14,035,537</u>	<u>17,114,884</u>
<b>TOTAL</b>	<b><u>\$37,500,072</u></b>	<b><u>\$39,748,307</u></b>	<b><u>\$41,210,844</u></b>

## Chelsea Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (1999)</b>	\$12,150,980	\$5,200,661	\$5,697,321	\$2,120	\$0	\$16,869,176	<b>\$39,920,259</b>
Receipts	1,922,087	150,286	5,909,107	47	284,873	254,502	<b>8,520,901</b>
Interfund Transfers	(297,217)	297,217	0	0	0	0	<b>0</b>
Disbursements	(448,582)	(662,618)	(5,825,450)	(8,793)	(284,873)	(8,793)	<b>(7,239,109)</b>
<b>Ending Balance (1999)</b>	<b>13,327,268</b>	<b>4,985,546</b>	<b>5,780,979</b>	<b>(6,627)</b>	<b>0</b>	<b>17,114,884</b>	<b>41,202,050</b>
Receipts	2,263,089	143,825	5,981,409	45	277,704	63,072	<b>8,729,145</b>
Interfund Transfers	(311,010)	311,010	0	0	0	0	<b>0</b>
Disbursements	(395,460)	(635,502)	(5,740,597)	(3,142,419)	(277,704)	(3,142,419)	<b>(13,334,101)</b>
<b>Ending Balance (2000)</b>	<b>14,883,888</b>	<b>4,804,879</b>	<b>6,021,791</b>	<b>(3,149,000)</b>	<b>0</b>	<b>14,035,538</b>	<b>36,597,095</b>
Receipts	2,269,430	137,962	6,241,283	42	356,421	64,940	<b>9,070,078</b>
Interfund Transfers	(324,226)	324,226	0	0	0	0	<b>0</b>
Disbursements	(690,281)	(604,470)	(5,813,497)	(3,853,643)	(356,421)	(3,853,643)	<b>(15,171,955)</b>
<b>Ending Balance (2001)</b>	<b><u>\$16,138,812</u></b>	<b><u>\$4,662,596</u></b>	<b><u>\$6,449,576</u></b>	<b><u>(\$7,002,601)</u></b>	<b><u>\$0</u></b>	<b><u>\$10,246,835</u></b>	<b><u>\$30,495,218</u></b>

# Chelsea Retirement System

## STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Annuity Savings Fund:</b>			
Members Deductions	\$1,820,308	\$1,710,233	\$1,552,532
Transfers from other Systems	147,891	265,761	83,102
Member Make Up Payments and Redeposits	28,054	11,535	26,049
Investment Income Credited to Member Accounts	<u>273,177</u>	<u>275,560</u>	<u>260,404</u>
<b>Sub Total</b>	<b><u>2,269,430</u></b>	<b><u>2,263,089</u></b>	<b><u>1,922,087</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<u>137,962</u>	<u>143,825</u>	<u>150,286</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	52,170	51,663	51,776
Received from Commonwealth for COLA and Survivor Benefits	638,329	676,470	699,498
Pension Fund Appropriation	<u>5,550,784</u>	<u>5,253,276</u>	<u>5,157,833</u>
<b>Sub Total</b>	<b><u>6,241,283</u></b>	<b><u>5,981,409</u></b>	<b><u>5,909,107</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>42</u>	<u>45</u>	<u>47</u>
<b>Sub Total</b>	<b><u>42</u></b>	<b><u>45</u></b>	<b><u>47</u></b>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>356,421</u>	<u>277,704</u>	<u>284,873</u>
<b>Sub Total</b>	<b><u>356,421</u></b>	<b><u>277,704</u></b>	<b><u>284,873</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	58,968	54,897	53,565
Pension Reserve Appropriation	0	0	2,198
Interest Not Refunded	5,972	8,176	12,437
Excess Investment Income	<u>0</u>	<u>0</u>	<u>186,301</u>
<b>Sub Total</b>	<b><u>64,940</u></b>	<b><u>63,072</u></b>	<b><u>254,502</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$9,070,078</u></b>	<b><u>\$8,729,145</u></b>	<b><u>\$8,520,901</u></b>



# Chelsea Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$209,199	\$281,717	\$419,424
Transfers to other Systems	<u>481,081</u>	<u>113,743</u>	<u>29,158</u>
<b>Sub Total</b>	<b><u>690,281</u></b>	<b><u>395,460</u></b>	<b><u>448,582</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	594,478	599,616	607,819
Option B Refunds	<u>9,992</u>	<u>35,885</u>	<u>54,799</u>
<b>Sub Total</b>	<b><u>604,470</u></b>	<b><u>635,502</u></b>	<b><u>662,618</u></b>
<b>Pension Fund:</b>			
Pensions Paid			
Regular Pension Payments	2,523,599	2,495,509	2,557,300
Survivorship Payments	366,199	391,573	413,136
Ordinary Disability Payments	168,965	174,904	180,386
Accidental Disability Payments	1,704,245	1,654,347	1,680,203
Accidental Death Payments	816,546	801,642	795,500
Section 101 Benefits	128,553	116,084	109,148
3 (8) (c) Reimbursements to Other Systems	105,391	106,537	89,775
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>5,813,497</u></b>	<b><u>5,740,597</u></b>	<b><u>5,825,449</u></b>
<b>Pension Reserve Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>3,853,643</u>	<u>3,142,419</u>	<u>8,793</u>
<b>Expense Fund:</b>			
Board Member Stipend	12,131	11,370	12,176
Salaries	85,662	78,205	76,166
Legal Expenses	102,000	12,000	12,000
Medical Expenses	0	0	0
Travel Expenses	1,397	508	3,536
Administrative Expenses	26,046	18,871	14,280
Furniture and Equipment	3,509	1,259	11,514
Management Fees	76,561	85,867	121,483
Custodial Fees	19,116	19,623	20,385
Consultant Fees	<u>30,000</u>	<u>50,000</u>	<u>13,333</u>
<b>Sub Total</b>	<b><u>356,421</u></b>	<b><u>277,704</u></b>	<b><u>284,873</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$11,318,312</u></b>	<b><u>\$10,191,682</u></b>	<b><u>\$7,230,316</u></b>

# Chelsea Retirement System

## INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Investment Income Received From:</b>			
Cash	\$112,511	\$110,527	\$67,260
Short Term Investments	0	0	0
Fixed Income	0	821,956	684,106
Equities	116,550	98,486	213,208
Pooled or Mutual Funds	<u>882,566</u>	<u>1,125,767</u>	<u>0</u>
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>1,111,627</u></b>	<b><u>2,156,736</u></b>	<b><u>964,574</u></b>
<b>Plus:</b>			
Increase in Amortization of Fixed Income Securities	0	313,622	0
Realized Gains	607,139	1,017,420	1,872,630
Unrealized Gains	1,031,537	741,560	3,263,651
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>3,354</u>	<u>13,103</u>	<u>237,972</u>
<b>Sub Total</b>	<b><u>1,642,029</u></b>	<b><u>2,085,704</u></b>	<b><u>5,374,253</u></b>
<b>Less:</b>			
Decrease in Amortization of Fixed Income Securities	0	0	(1,059,162)
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(1,691,013)	(2,886,052)	(2,738,902)
Unrealized Loss	(4,131,257)	(3,563,701)	(1,561,625)
Custodial Fees Paid	0	0	0
Consultant Fees Paid	0	0	0
Management Fees Paid	0	0	0
Board Member Stipend	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(13,103)</u>	<u>(237,972)</u>	<u>(97,227)</u>
<b>Sub Total</b>	<b><u>(5,835,373)</u></b>	<b><u>(6,687,725)</u></b>	<b><u>(5,456,915)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>(3,081,717)</u></b>	<b><u>(2,445,284)</u></b>	<b><u>881,911</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	273,177	275,560	260,404
Annuity Reserve Fund	137,962	143,825	150,286
Military Service Fund	42	45	47
Expense Fund	<u>356,421</u>	<u>277,704</u>	<u>284,873</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>767,602</u></b>	<b><u>697,135</u></b>	<b><u>695,610</u></b>
Net Investment Income	<u>(3,081,717)</u>	<u>(2,445,284)</u>	<u>881,911</u>
Less: Total Income Required	<u>767,602</u>	<u>697,135</u>	<u>695,610</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>(\$3,849,319)</u></b>	<b><u>(\$3,142,419)</u></b>	<b><u>\$186,301</u></b>

## Chelsea Retirement System

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$2,557,697	\$2,557,697	7.37%	100
Short Term	431,605	431,605	1.24%	100
Equities	7,500,793	7,500,793	21.61%	100
Pooled Domestic Equity Funds	10,356,248	10,356,248	29.83%	100
Pooled International Equity Funds	3,406,413	3,406,413	9.81%	100
Pooled Domestic Fixed Income Funds	10,462,762	10,462,762	30.14%	100
<b>GRAND TOTALS</b>	<b><u>\$34,715,520</u></b>	<b><u>\$34,715,520</u></b>	<b><u>100.00%</u></b>	

\* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2001**, the rate of return for the investments of the **Chelsea** Retirement System was -7.64%. For the five year period ending December 31, **2001**, the rate of return for the investments of the **Chelsea** Retirement System averaged 3.58%. For the fifteen-year period ending December 31, **2001**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Chelsea** Retirement System was 9.00%.

# **Chelsea Retirement System**

## **SUPPLEMENTARY INVESTMENT REGULATIONS**

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

The **Chelsea** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

November 13, 1997

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 15% of the market value of fixed income investments may be invested in bonds with a quality rating below Baa or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 15% of the market value of fixed income investments may be invested in bonds with a quality rating below Baa or equivalent.

October 10, 1996

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 4% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent as rated by one of more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 4% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent.

May 9, 1996

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

December 28, 1995

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds and Eurobonds which shall be limited to 12% of the total fixed income portfolio valued at market.

July 21, 1994

20.03(1) Equity investments shall not exceed 50% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations.

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock

## **Chelsea Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

- exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.
- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

# Chelsea Retirement System

## NOTES TO FINANCIAL STATEMENTS

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

### NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Chelsea** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

# **Chelsea Retirement System**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## Chelsea Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Chelsea** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 28, 1984

All new members must file proof of date of birth with their applications for membership.



## **Chelsea Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

- Department heads are to be notified that the Retirement Board must receive, in writing, a report of all accidents of employees incurred in the time of duty. Such reports must be received within forty-eight (48) hours after the accident.
- No medical information contained in any employee file or in a medical panel report will be dispensed to anyone without the written permission of the member concerned, whether retired or not provided that authorized individuals such as representatives of the Public Employee Retirement Administration Commission and the retirement board may still be granted access.
- Upon granting membership to Permanent Intermittent employees of the school cafeteria, it was determined that these employees shall be granted credit for that proportion of the number of hours worked as it bears to the number of hours a regularly employed full-time cafeteria employee is required to work during a school year, to obtain a full year of creditable service, 1400 hours.
- Any waivers of a physical condition that may have been signed by an employee in order to obtain their positions with the City, must be sent to the Retirement Board at once. Any future such waivers that may be signed must be forwarded to the Retirement Board immediately.

May 5, 1986

- Permanent full-time employees of the City of Chelsea will be admitted to membership in the Chelsea Retirement System subject to the following conditions:
- The Department Head shall supply the Chelsea Retirement Board with a list of all employees, their annual salaries, and the date of their original appointment to said office.
- The deduction to be withheld from the salary of each member who became an employee after January 1, 1984 must be Eight (8%) Percent.
- Employees may request, in writing, permission to make up payments for their previous employment with the City of Chelsea or any agency which has been accepted as a member of the Chelsea Retirement System. The amount to be withheld for the make-up period only, not extending beyond January 1, 1984 shall be based on the percentage in effect on the original date of the employee's employment.
- The make up payment of those deductions that would have been made, had the employee become a member of the Retirement System on the original date of employment, shall be the percentage in effect on said date, plus interest to the completion of the make up payment. For the period beginning January 1, 1984, and thereafter, the percentage withheld is Eight (8%) Percent.
- Each employee requesting permission to make up payments for their previous employment shall provide the Retirement System with a verified list of salaries, earned by them, by Calendar Year, not including any overtime or bonuses, so that a makeup payment can be calculated.
- Any member who has previously been employed by the Commonwealth of Massachusetts, or any political subdivision thereof, and a member of its retirement system must inform the Chelsea Retirement Board so that an inquiry can be made as to the disposition of said

## **Chelsea Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

employees accumulated deductions.

- Each employee seeking to become a member of the Chelsea Retirement System must complete an enrollment form, which must be accompanied by a copy of said employees birth certificate, and if a veteran, a copy of their military discharge papers.

February 13, 1998:

Any member seeking military service credit in accordance with the provisions of C. 71 of the Acts of 1996, who is eligible for such credit as of September 19, 1997, must submit an application for such service on or before March 16, 1998. Members, who become eligible for military service credit after September 19, 1997, shall be notified of their eligibility by the Retirement Board and must submit an application for such credit within 180 days of receipt of notification. The Retirement Board will review each application to determine the member's eligibility, and will notify each eligible applicant in writing of the amount of service which may be purchased, and of the amount of the required payment. The member must then remit the full-required payment in one lump sum to the Retirement Board on or before the forty fifth day following the member's receipt of notification of eligibility, or on or before the date immediately preceding the member's date of retirement, whichever date first occurs.

## Chelsea Retirement System

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

##### **NOTE 4 - ADMINISTRATION OF THE SYSTEM**

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Andrew Gould

Appointed Member: Richard A. Incerto                      Term Expires: 07/13/03

Elected Member: Leo B. Graves Sr.                      Term Expires: 10/12/04

Elected Member: Joseph M. Siewko                      Term Expires: 12/17/05

Appointed Member: Carolyn M. Russo                      Term Expires: 01/29/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The retirement Board members and staff have no bonding coverage, see explanation of findings and recommendations.

# Chelsea Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **Public Employee Retirement Administration Commission** as of **January 1, 2001**.

The actuarial liability for active members was	\$ 38,448,499
The actuarial liability for vested terminated members was	664,087
The actuarial liability for non-vested terminated members was	314,231
The actuarial liability for retired members was	49,513,678
The total actuarial liability was	<b>88,940,495</b>
System assets as of that date were	39,748,307
The unfunded actuarial liability was	<b><u>\$ 49,192,188</u></b>
The ratio of system's assets to total actuarial liability was	44.7%
As of that date the total covered employee payroll was	20,265,717

The normal cost for employees on that date was 9.70% of payroll

The normal cost for the employer was 7.50% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.25% per annum

**Rate of Salary Increase:** 5.75% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2001	\$39,748,307	\$88,940,495	\$49,192,188	44.7%	\$20,265,717	242.7%
1/1/1999	\$39,899,336	\$84,532,145	\$44,632,809	47.2%	\$17,363,858	257.0%
1/1/1997	\$31,508,768	\$67,397,852	\$35,889,084	46.8%	\$16,134,846	222.4%
1/1/1995	\$23,416,947	\$59,901,933	\$36,484,986	39.1%	\$14,254,142	256.0%

## Chelsea Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Superannuation	57	4	1	1	3	1	4	7	8	4
Ordinary Disability	3	1	0	0	0	1	0	0	1	0
Accidental Disability	3	1	2	1	2	4	2	1	0	3
<b>Total Retirements</b>	<b>63</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>9</b>	<b>7</b>
<b>Total Retirees, Beneficiaries and Survivors</b>	<b>482</b>	<b>483</b>	<b>472</b>	<b>456</b>	<b>445</b>	<b>441</b>	<b>440</b>	<b>434</b>	<b>426</b>	<b>405</b>
<b>Total Active Members</b>	<b>449</b>	<b>528</b>	<b>576</b>	<b>583</b>	<b>559</b>	<b>580</b>	<b>587</b>	<b>618</b>	<b>657</b>	<b>646</b>
<b>Pension Payments</b>										
Superannuation	\$2,345,739	\$2,758,943	\$2,697,219	\$2,581,225	\$2,460,489	\$2,571,061	\$2,433,361	\$2,557,300	\$2,495,509	\$2,523,599
Survivor/Beneficiary Payments	222,960	225,624	271,857	287,392	331,222	375,210	376,012	413,137	391,573	366,168
Ordinary Disability	250,058	267,904	235,432	231,437	220,879	208,534	190,113	180,386	174,904	168,965
Accidental Disability	1,608,311	1,574,173	1,610,786	1,673,419	1,607,483	1,952,731	1,630,966	1,680,203	1,654,347	1,704,245
Other	<u>195,398</u>	<u>815,985</u>	<u>824,806</u>	<u>857,091</u>	<u>922,050</u>	<u>942,248</u>	<u>946,172</u>	<u>904,648</u>	<u>917,726</u>	<u>945,098</u>
<b>Total Payments for Year</b>	<b><u>\$4,622,466</u></b>	<b><u>\$5,642,629</u></b>	<b><u>\$5,640,100</u></b>	<b><u>\$5,630,564</u></b>	<b><u>\$5,542,123</u></b>	<b><u>\$6,049,784</u></b>	<b><u>\$5,576,624</u></b>	<b><u>\$5,735,675</u></b>	<b><u>\$5,634,060</u></b>	<b><u>\$5,708,076</u></b>